

CILCO EXHIBIT 2.0

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3/21/02 and

ILLINOIS COMMERCE COMMISSION

DOCKET 02-__

**PREPARED JOINT DIRECT TESTIMONY OF
BRENDA FREEMAN AND TOM BRAMSCHREIBER**

1 Q1: Please state your names and business addresses.

2 A1: Brenda Freeman and my business address is 300 Liberty Street, Peoria, Illinois
3 61602.

4 Tom Bramschreiber and my business address is 1901 Butterfield Road, Suite 650,
5 Downers Grove, Illinois 60515.

6 Q2: Ms. Freeman, by whom are you employed and in what position?

7 A2: I am presently employed as a Finance Team Member on the Finance and
8 Administration Team of Central Illinois Light Company ("CILCO").

9 Q3: Mr. Bramschreiber, by whom are you employed and in what position?

10 A3: I am presently employed as a Project Director with AES Great Plains Inc., the
11 business unit of AES where CILCO resides.

12 Q4: Ms. Freeman, please describe your educational background and business
13 experience.

14 A4: I hold a Bachelor of Science degree in Accounting and a Masters of Business
15 Administration degree from Bradley University. I have been employed by
16 CILCO since 1991. My work experience at CILCO includes positions in
17 accounting, tax, treasury, and investments and finance. I have worked on the
18 Finance and Administration Team since 1999.

19 Q5: Mr. Bramschreiber, please describe your educational background and business
20 experience.

21 A5: I hold a Bachelor of Science degree in Finance from Bowling Green State
22 University and a Masters of Business Administration degree in Finance from
23 DePaul University. I have been employed by AES, in various business units,
24 since 1999. From 1994 to 1998, I was employed by MidCon Corp., a subsidiary
25 of Occidental Petroleum and later KN Energy, where I held various positions in
26 retail and wholesale energy marketing, supply procurement, and product
27 development and planning. From 1984 to 1994, I was employed by The Peoples
28 Gas, Light & Coke Company, a subsidiary of Peoples Energy, in various gas
29 supply planning and regulatory affairs positions.

30 Q6: In addition to your joint direct testimony, CILCO Appendix N, are you
31 sponsoring any other exhibits?

32 A6: Yes, we are sponsoring the following five exhibits, which were prepared under
33 our direction and control: CILCO Appendix N-2 (Treasury Bond Yields and
34 CILCO Historical Returns), CILCO Appendix N-3 (Financial Projections Under
35 A No Customer Switching Scenario), CILCO Appendix N-4 (Financial
36 Projections Under A Customer Switching Scenario - - As Filed Delivery Services
37 Rates), CILCO Appendix N-5 (Financial Projections Under A Customer
38 Switching Scenario - - Existing Delivery Services Rates), and CILCO Appendix
39 N-6 (Financial Projections Under A Customer Hyper-Switching Scenario - -
40 Existing Delivery Services Rates).

41 Q7: What is the purpose of your joint direct testimony in this proceeding?

42 A7: The purpose of our joint direct testimony is to present projections of CILCO's
43 earned rates of return on common equity ("ROE"), for the years 2002 through
44 2004, calculated in accordance with Section 16-111(d) of the Illinois Public
45 Utilities Act ("Act"). As required by Section 16-111(g)(vi) of the Act, we will
46 demonstrate that CILCO's earned rate of return on common equity, as a result of
47 the transfer of CILCO's generation assets to Central Illinois Generation, Inc.
48 ("CIGI"), a wholly owned non-utility subsidiary of CILCO, will not produce a
49 strong likelihood of the need for a rate increase under Section 16-111(d) of the
50 Act.

51 Q8: Please describe the requirements for an electric base rate increase under Section
52 16-111(d) of the Act.

53 A8: It is our understanding that Section 16-111(d) of the Act permits an electric utility
54 to request an increase in its base rates during the mandatory transition period,
55 which extends through 2004, if its two-year average return on common equity
56 falls below the average yield on 30-year U.S. Treasury bonds for the same two
57 year period. The calculation of earned rate of return on common equity specified
58 in Section 16-111(d) states:

59 an electric utility may request an increase in its base rates if the
60 electric utility demonstrates that the 2-year average of its earned rate of
61 return on common equity, calculated as its net income applicable to
62 common stock divided by the average of its beginning and ending
63 balances of common equity using data reported in the electric utility's
64 Form 1 report to the Federal Energy Regulatory Commission but adjusted
65 to remove the effects of accelerated depreciation or amortization or other
66 transition or mitigation measures implemented by the electric utility
67 pursuant to subsection (g) of this Section, is below the 2-year average for
68 the same 2 years of the monthly average yields of 30-year U.S. Treasury

bonds published by the Board of Governors of the Federal Reserve System in its weekly H.15 Statistical Release or successor publication.

This is a historical calculation of the two-year average earned ROE as reported in the electric utility's Form 1 report to the Federal Energy Regulatory Commission ("FERC") and compared to the historical yields of 30-year U.S. Treasury bonds over the same two-year period.

Q9: Does the corporate structure of the proposed transaction impact the calculation of earned return on common equity under Section 16-111(d) of the Act?

A9: Yes. CILCO is proposing to transfer substantially all of its generation assets to CIGI, a wholly-owned non-utility subsidiary of CILCO. For purposes of calculating the earned return on common equity under Section 16-111(d) of the Act, the earnings or losses of subsidiary companies are included in FERC Form 1 and are therefore reflected in the earned return on common equity calculation. The net income and common equity of CILCO, as reported in FERC Form 1, will not be affected by the proposed transfer of generation assets. In short, CILCO's projected two-year average returns on common equity will be identical both with and without the proposed transfer.

Q10: At what value are the generation assets being transferred to CIGI?

A10: The generation assets will be transferred at net book value. As shown in Appendix H, the net book value of the generation assets are approximately \$155 million at December 31, 2001.

Q11: Why are the generation assets being transferred to CIGI at net book value?

A11: Generally accepted accounting principles require that transfers of assets and liabilities between companies under common control or between a parent and its

94 subsidiaries be valued at historical cost (i.e., net book value). This requirement is
95 described in the Independent Accountants' Report found in Appendix I.

96 Q12: Please describe the operational and financial projection requirements under
97 Section 16-111(g)(vi) of the Act.

98 A12: It is our understanding that CILCO must show that the proposed transfer of
99 generation assets under Section 16-111(g)(vi) of the Act (i) will not render the
100 electric utility unable to provide its tariffed services in a safe and reliable manner,
101 and (ii) that there is not a strong likelihood that consummation of the proposed
102 transaction will result in the electric utility being entitled to request an increase in
103 its electric base rates during the mandatory transition period pursuant to Section
104 16-111(d).

105 CILCO witnesses Robert Sprowls and Robert G. Ferlmann have addressed
106 the former requirement. With respect to the latter requirement, we have prepared
107 projections of CILCO's two-year average returns on common equity through
108 2004, both with and without the proposed transfer, assuming no retail load loss to
109 alternative generation providers ("No Customer Switching"). The results, when
110 compared to projected average monthly yields of 30-year U.S. Treasury bonds,
111 indicate that there is not a strong likelihood of the utility qualifying to request an
112 increase in electric base rates during the mandatory transition period. In addition,
113 although we believe the level of customer switching that may occur is not a
114 function of whether or not the generation assets are transferred, we have prepared
115 various projections of CILCO's two-year average returns on common equity
116 through 2004, both with and without the proposed transfer, assuming an

117 increasing level of annual retail load loss to alternative generation providers
118 ("With Customer Switching"). These results, when compared to projected
119 average monthly yields of 30-year U.S. Treasury bonds, also indicate that there is
120 not a strong likelihood of the utility qualifying to request an increase in electric
121 base rates during the mandatory transition period.

122 Q13: What were the average monthly yields of 30-year U.S. Treasury bonds for the
123 most recent two calendar years?

124 A13: The average monthly yields of 30-year U.S. Treasury bonds for the twenty-four
125 month period ending December 31, 2001, was 5.72%. This data is included on
126 Page 1 of CILCO Appendix N-2.

127 Q14: What are the projected average monthly yields of 30-year U.S. Treasury bonds
128 which CILCO compared its financial projections?

129 A14: For conservative comparison purposes, CILCO relied on the current spot yield for
130 30-year U.S. Treasury bonds and the historical variability of bond yields. The
131 spot yield for 30-year U.S. Treasury bonds on January 29, 2002, was 5.40%. To
132 estimate historical variability of bond yields, CILCO calculated the standard
133 deviation of two-year average monthly returns over the last decade to be 0.73%.
134 The standard deviation is a statistical measure of how widely values are dispersed
135 from the average value or mean.

136 Adding two statistical standard deviations, or 146 basis points, to the
137 current spot bond yield of 5.40% produces a probability of approximately 95%
138 that 30-year U.S. Treasury bond yields will be no higher than 6.86%. For
139 conservative comparison purposes, CILCO has assumed 6.86% to be the

140 projected average annual monthly yield of 30-year U.S. Treasury bonds. This
141 data is also shown on Page 1 of CILCO Appendix N-2. Treasury bond yields
142 approaching such levels have not occurred since 1997.

143 With respect to the two-year period ending December of 2002, it is
144 worthwhile to recognize that one-half of this period has passed. In order for the
145 two-year average annual monthly yield of 30-year U.S. Treasury bonds to equal
146 the aforementioned 6.86%, the average yield for 2002 would need to exceed
147 8.00%, a level which has not consistently occurred in over a decade. The average
148 monthly yield for calendar year 2001 was 5.49%, in order to average 6.86% for
149 the two-year period ending December of 2002, the remaining twelve months
150 would need to average 8.23%. Again, the two-year projected average yield of
151 6.86% is used for conservative comparison purposes.

152 Q15: What have CILCO's historical two-year average earned rates of return on
153 common equity been?

154 A15: As reported in CILCO's FERC Form 1 report, the unadjusted two-year average
155 rates of return on common equity have ranged from 8.37% to 14.14% over the last
156 decade. The unadjusted two-year average return on common equity has exceeded
157 the two-year average 30-year U.S. Treasury bond yield by a minimum of 250
158 basis points in every corresponding period, with an average difference of over 450
159 basis points. The positive correlation between CILCO's earned rate of return on
160 common equity and 30-year U.S. Treasury bond yields is shown on Page 2 of
161 CILCO Appendix N-2.

162 Q16: With respect to the financial projections, how will CIGI derive its revenues?

163 A16: CIGI will derive the vast majority of its revenues from the Power Supply
164 Agreement (PSA) with CILCO. The per unit rates found in the PSA are
165 formulaic in nature. The Energy Charge of \$17.05 per megawatt-hour is simply
166 the level of fuel costs currently recovered through electric base rates, adjusted for
167 line losses (i.e., \$17.76 per megawatt-hour times 96% to reflect line losses). The
168 Capacity Charge of \$7,235 per megawatt approximates the level of non-fuel,
169 embedded generation currently recovered through electric base rates. The per unit
170 Capacity Charge reflects what is left when revenue taxes, fuel related revenue,
171 and delivery services revenue based on the "as filed" Delivery Services Tariffs
172 ("DST") from consolidated Docket Nos. 01-0637, 01-0465, and 01-0530 are
173 deducted from bundled electric service rates¹. The total dollar amount divided by
174 the annual PSA Commitment found on Appendix A of the PSA is the basis of the
175 per unit Capacity Charge.

176 Q17: Does the level of the Capacity Charge affect the FERC Form 1 earned return on
177 common equity calculation?

178 A17: No. The Capacity Charge could be 25% higher or lower, for example, and
179 CILCO's FERC Form 1 earned return on common equity would remain
180 unchanged.

181 Q18: How will CILCO as a distribution company (i.e., pipes and wires company)
182 derive its revenue?

¹ Staff has recommended a DST revenue requirement approximately \$20.8 million, or almost 18.5%, lower than what CILCO originally requested (Staff's Initial Brief; Appendix A; Page 1 of 9). CILCO does not propose to alter the PSA Capacity Charge to *track* the final outcome of its DST proceeding.

184 A18: CILCO as a distribution company will derive the vast majority of its revenue from
 185 delivering energy. In effect, CILCO retains all its gas gross margin and its "as
 186 filed" delivery services electric gross margin. With respect to the former, the
 187 returns for CILCO are negatively impacted by gas distribution operations.
 188 CILCO has not requested an increase in gas base rates in almost a decade, with
 189 the returns for this distribution function remaining depressed. The imputed return
 190 on equity for CILCO's gas distribution function has been less than 7.5% for the
 191 last two years.

192 Q19: What additional assumptions were used in developing CILCO's projected rate of
 193 return on common equity assuming no retail load loss to alternative generation
 194 providers?

195 A19: The key No Customer Switching assumptions which underlie the financial
 196 projections are set forth on Pages 1 - 3 of CILCO Appendix N-3.

197 Q20: What are the results of the comparison of the projected earned rates of return on
 198 common equity to the projected Treasury bond yields assuming no retail load loss
 199 to alternative generation providers?

200 A20: As shown on Page 8 of CILCO Appendix N-3, the projected earned rates of return
 201 on common equity through the mandatory transition period indicate that the
 202 transfer of generation assets will not affect CILCO's returns such that there is a
 203 strong likelihood that CILCO would be entitled to seek an increase in its electric
 204 base rates. In both No Customer Switching scenarios, the projected earned rates
 205 of return on common equity are well above the projected average annual monthly
 206 yields of 30-year U.S. Treasury bonds. This is shown on Page 4 of CILCO

Appendix N-3, which assumes no transfer of generation assets, and on Page 8 of CILCO Appendix N-3, which assumes the transfer of generation assets.

Q21: What assumptions were used in developing CILCO's projected rate of return on common equity assuming retail load loss to alternative generation providers?

A21: The key With Customer Switching assumptions which underlie the financial projections are set forth on Pages 1 - 3 of CILCO Appendix N-4. To date, CILCO has not experienced any retail load loss to alternative generation providers. For purposes of this filing, however, we have developed financial projections assuming an increasing level of annual retail load loss to alternative generation providers (5% in 2002, 10% in 2003, and 15% in 2004).

As previously stated, we believe that the level of customer switching that may occur is not a function of whether or not the generation assets are transferred.

As noted on the Illinois Commerce Commission's Website, customers may choose who supplies the generation portion of their electric service for a variety of reasons.

Those [reasons] may include how or where the electricity is produced, economic or environmental support, the lowest price or total cost or the best combination of prices, services and incentives.

None of these reasons are affected or altered by the transfer of generation assets during the mandatory transition period. Commission approved bundled and delivery service rates do not change as a result of the transfer of generation assets. In terms of switching decisions, customers are indifferent to the transfer of generation assets.

Moreover, any financial impact to CILCO arising from customer switching, positive or negative, would occur regardless of the transfer of generation assets (i.e., difference between bundled service rates and delivery service rates plus any wholesale revenue from freed-up energy sales). As previously stated, the corporate structure of the proposed transaction results in CILCO's projected two-year average returns on common equity being identical both with and without the proposed transfer.

Q22: What are the results of the comparison of the projected earned returns on common equity to the projected Treasury bond yields assuming an increasing level of annual load loss to alternative generation providers?

A22: As shown on Page 8 of CILCO Appendix N-4, the projected earned rates of return on common equity through the mandatory transition period indicate that the transfer of generation assets, even with an increasing level of annual load loss to alternative generation providers, will not affect CILCO's returns such that there is a strong likelihood that CILCO would be entitled to seek an increase in its electric base rates. In both With Customer Switching scenarios, the projected earned rates of return on common equity are well above the projected average annual monthly yields of 30-year U.S. Treasury bonds. This is shown on Page 4 of CILCO Appendix N-4, which assumes no transfer of generation assets, and on Page 8 of CILCO Appendix N-4, which assumes the transfer of generation assets.

Q23: Have you developed any other financial projections?

A23: Yes. The With Customer Switching financial projections shown in CILCO Exhibit N-4 incorporate delivery services revenues reflective of CILCO's filed

254 tariffs in consolidated Docket Nos. 01-0637, 01-0465, and 01-0530 ("As Filed
255 Delivery Services Rates"). We have modified CILCO Exhibit N-4 to incorporate
256 delivery services revenues reflective of CILCO's previously approved tariffs in
257 consolidated Docket Nos. 99-0119 and 99-0131 ("Existing Delivery Services
258 Rates"). The financial projections shown in CILCO Exhibit N-5 are reflective of
259 the previously approved delivery services rates.

260 In addition, we have further modified the With Customer Switching
261 financial projections to reflect "hyper-switching". We believe that the level of
262 switching reflected in the With Customer Switching financial projections are
263 aggressive given existing bundled service rates (i.e., 5% in 2002, 10% in 2003,
264 and 15% in 2004). Nonetheless, we have modified CILCO Exhibit N-5 to reflect
265 even further annual loss of retail load to alternative generation providers (i.e.,
266 10% in 2002, 20% in 2003, and 30% in 2004). The financial projections shown in
267 CILCO Exhibit N-6 are reflective of the previously approved delivery services
268 rates and an assumed *doubling* of annual retail load loss to alternative generation
269 providers.

270 Q24: What is your conclusion?

271 A24: Based upon the projected earned rates of return on common equity under the
272 various scenarios described above, the consummation of the proposed transaction
273 will not result in CILCO being entitled to request an increase in its base rates
274 during the mandatory transition period pursuant to Section 16-111(d) of the Act.
275 Even under the most extreme "hyper-switching" scenario, CILCO's projected rate
276 of return on common equity is at least two standard deviations above current 30-

277 year U.S. Treasury bond yields. This indicates that there is not a strong likelihood
278 that CILCO will qualify to request an increase in base rates during the mandatory
279 transition period.

280 Q25: Does this conclude your joint direct testimony?

281 A25: Yes.

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Central Illinois Light Company)
)
Notice of transfer of generation assets to a)
subsidiary and entry into various agreements) Docket No. 02-_____
pursuant to Section 16-111(g) of the Illinois)
Public Utilities Act.)

AFFIDAVIT OF BRENDA FREEMAN

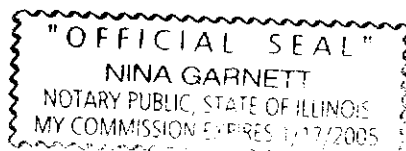
Brenda Freeman, being first duly sworn on oath, deposes and states as follows:

1. I prepared and am familiar with the contents of Appendix N to CILCO's Notice of Transfer of Assets, which bears the title "Prepared Joint Direct Testimony of Brenda Freeman and Tom Branschreiber." My answers to the questions appearing in said appendix are true and correct to the best of my knowledge and belief.
2. CILCO Appendices N-2, N-3, N-4, N-5 and N-6 were prepared under my direction and control and accurately portray what they purport to portray.
3. Further Affiant sayeth naught.

Brenda Freeman
Brenda Freeman

SUBSCRIBED AND SWORN TO BEFORE ME
THIS 20th DAY OF FEBRUARY, 2002

Nina Garnett
NOTARY PUBLIC



STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Central Illinois Light Company)
)
 Notice of transfer of generation assets to a)
 subsidiary and entry into various agreements)
 pursuant to Section 16-111(g) of the Illinois)
 Public Utilities Act.)

Docket No. 02-_____

AFFIDAVIT OF TOM BRAMSCHREIBER

Tom Bramschreiber, being first duly sworn on oath, deposes and states as follows:

1. I prepared and am familiar with the contents of Appendix N to CILCO's Notice of Transfer of Assets, which bears the title "Prepared Joint Direct Testimony of Brenda Freeman and Tom Bramschreiber." My answers to the questions appearing in said appendix are true and correct to the best of my knowledge and belief.
2. CILCO Appendices N-2, N-3, N-4, N-5 and N-6 were prepared under my direction and control and accurately portray what they purport to portray.
3. Further Affiant sayeth naught.

Tom Bramschreiber

Tom Bramschreiber

SUBSCRIBED AND SWORN TO BEFORE ME

THIS 24 DAY OF FEBRUARY, 2002

Nina Garnett

NOTARY PUBLIC

